

## Report of the Interim Deputy Chief Executive

**EXTERNAL AUDIT REPORT 2017/18 – MANAGEMENT RESPONSES UPDATE**1. Purpose of report

To provide additional details of actions being undertaken in response to the recommendations made by the external auditors in their report on the external audit of the Council's 2017/18 accounts.

2. Detail

The External Audit Report 2017/18, presented by the external auditors (KPMG) to the Governance, Audit and Standards Committee on 23 July 2018, followed their work on the Council's 2017/18 accounts. This included five recommendations intended to strengthen the Council's financial reporting processes whilst ensuring the quality and accuracy of the financial statements and that they are produced in a timely manner.

The management responses provided to the external auditors recommendations were included in the External Audit Report 2017/18. However, further detail as to the nature of the recommendations and how they are being addressed is set out in the appendix.

It should be noted that the external auditors regard recommendation 1 as Priority One and recommendations 2 to 5 as Priority Two. Priority One are issues that are fundamental and material to the system of internal control and Priority Two are issues that have an important effect on internal controls but do not need immediate action. However, addressing all the recommendations in a determined and robust manner should enhance the ability to meet the deadlines for the earlier production of the Council's accounts that now apply.

In 2017/18 the Council's external auditors were KPMG. From 2018/19 the Council's external auditors are Mazars. As part of their work on the Council's 2018/19 accounts, Mazars will take into consideration any outstanding recommendations made by KPMG. Mazars are conducting an interim audit of the 2018/19 accounts for two weeks commencing on 4 March 2019 and the final audit is scheduled for three weeks commencing on 17 June 2019.

**Recommendation**

**The committee is asked to NOTE the work being undertaken to respond to the recommendations made in the External Audit Report 2017/18 as set out in the appendix.**

Background papers

Nil

## APPENDIX

**External Audit Report 2017/18 – Management Responses Updates****Recommendation 1 – Embedded Procurement Arrangements**

The Authority should ensure that it has robust contract monitoring arrangements in place to retrospectively review contracts that expired in 2017/18 and for those contracts due to expire to be able to proactively fulfil obligations to initiate competitive tenders where applicable.

**Management Response Update**

The Council appointed an interim Procurement and Contracts Officer who commenced on 8 May 2018. He had significant experience of working in procurement roles in a number of public sector organisations and undertook a number of activities including:

- Working with colleagues to review and update (where necessary) the contracts register
- Developing an updated Commissioning and Procurement Strategy, including refreshing associated guidance documents on the intranet and the Council's website
- Updating the purchase order terms and conditions for both the Council and Liberty Leisure
- Revising the 'Guide to Doing Business with the Council' document in line with the Public Contracts Regulations 2015 and other relevant legislation
- Playing a lead role in the appointment of a managed service provider for the procurement of temporary and agency staff at the Council
- Reviewing the contract to supply building, plumbing, heating and electrical materials for the Stores function at Kimberley Depot, including identifying opportunities to use suitable OJEU (Official Journal of the European Union) frameworks where appropriate
- Assisting in the forthcoming introduction of 'hybrid mail' intended to reduce postage costs and administrative time by sending documents electronically to an external provider by liaising with other local authorities to identify best practice
- Providing procurement advice to Housing and Legal Services to enable the contract for technology enabled care services (TECS) to be placed
- Reviewing the contracts for the cleaning and clearance of void properties to identify a suitable provider using a framework agreement
- Assisting the Housing Repairs team in the appointment of a suitable contractor, again using a framework agreement
- Supporting the implementation of a new contract for the supply of plastic bags to Kimberley Depot
- Providing advice and guidance to colleagues on the collection, aggregation and publication of data in accordance with the Local Government Transparency Code

The interim Procurement and Contracts Officer left the Council on 18 January 2019. Consideration has been given to how the Council should proceed with ensuring that its procurement arrangements continue to be effective and robust and steps are being taken to bring in a replacement interim Procurement and Contracts Officer to build upon the work set out above.

### **Recommendation 2 – Financial Sustainability Challenge**

The Authority should continue to track and monitor its progress in delivering the anticipated savings for 2018/19 and identify schemes to ensure that it can deliver the 2018/19 plan and beyond.

#### **Management Response Update**

An updated Business Strategy at 1 October 2018 setting out a range of savings initiatives, ideas and proposals was approved by the Finance and Resources Committee on 11 October 2018. Many of the initiatives contained within the document have been incorporated within the 2019/20 General Fund revenue budget. It is presently envisaged that a further update of the Business Strategy will be presented to Finance and Resources Committee on 10 October 2019.

The Medium Term Financial Strategy (MTFS) continues to be reviewed regularly to reflect emerging issues in the internal and external environment and updates were presented to the Finance and Resources Committee on 13 December 2018 and 14 February 2019. A further update of the MTFS will be presented to Finance and Resources Committee on 10 October 2019 following the conclusion of the 2018/19 final accounts.

In association with a number of other Nottinghamshire local authorities, the Council is looking to purchase a performance management tool from Grant Thornton to assist with benchmarking a range of activities and assess whether they provide value for money. It is intended that this tool will assist with the development of savings initiatives that will help the Council address any future funding shortfalls.

### **Recommendation 3 – Senior Officer Management Arrangements**

The Authority should evaluate its current arrangements and undertake appropriate steps to ensure a substantive structure is adopted.

#### **Management Response Update**

Policy and Performance Committee on 12 December 2018 approved a new senior management structure along with an appointment process for these roles. The appointment of the Deputy Chief Executive was approved at Council on 6 March 2019 and the recruitment of the Strategic Director, Monitoring Officer and Head of Housing is due to commence shortly.

**Recommendation 4 – Recoverability of Debtors**

The Authority should develop its reporting of aged debt so the levels, age profile and type of debtor are clear and routinely actioned.

**Management Response Update**

A quarterly meeting is held between all departments involved in the recovery of sundry debts to ensure that effective processes are in place to prevent the level of sundry debts increasing unnecessarily. This includes representatives from Housing, Revenues, Administrative Services, Legal Services and Finance Services. Among the measures that have been introduced are regular reconciliations and more frequent reporting of outstanding debt to senior management.

Whilst debts less than £1,200 can be written off by the Section 151 Officer, debts greater than £1,200 require the approval of the Finance and Resources Committee if they are to be written off. This used to be undertaken on an annual basis but, from July 2018, is being done on a quarterly basis to ensure that the total value of debts appropriately reflects the estimated level of recoverability.

The success of the measures outlined above can be measured by the fact that the level of sundry debts has fallen from £1,457,182 at 1 April 2018 to £830,029 at 31 January 2019.

**Recommendation 5 – Availability of Audit Evidence**

The Finance team should:

- Enhance the payroll to general ledger reconciliation by maintaining the source reports as part of a robust audit trail at the time of undertaking the reconciliation so this is available to audit;
- Roll out the Intelligent Scanning module to facilitate transparency of non pay expenditure; and
- Plan for compliance with RICS valuation standards for the 2018/19 beacon valuation.

**Management Response Update**

(i) Payroll to General Ledger Reconciliations

The source reports required to support the reconciliation between the payroll and the general ledger will be captured at the end of the financial year by the inclusion of this task in the final accounts timetable and responsibility assigned to a Principal Accountant. The reports will then be made available to the external auditors to assist in their work.

(ii) Intelligent Scanning

The Council has purchased Civica's intelligent scanning module which, once implemented, should significantly reduce the administrative burden of processing creditor invoices and unlock significant efficiencies and savings in staff time. It should reduce paper and printing costs, save time in manually entering financial data into the creditors system, improve the accuracy of data, produce timely payments to suppliers and reduce errors in supplier payments such as overpayments and duplicate payments.

In advance of the rollout of intelligent scanning to departments, the Council has updated its financial management software (also provided by Civica) to the latest version (v18.5). Work has also been undertaken to remove a significant number of obsolete orders and to encourage departments to raise orders where appropriate.

Steps will now be taken to compile a project plan for the rollout of intelligent scanning with suitable milestones, allocation of responsibilities and testing procedures before the facility comes into operation. It is presently anticipated that this will be after the 2018/19 final accounts work has been concluded.

(iii) RICS Valuation Standards

The Royal Institution of Chartered Surveyors (RICS) Professional Standards (January 2014) requires that where a full valuation of the Council's housing stock has been undertaken by an internal valuer then that should be subject to a review by an external valuer. This simply requires a representative sample of valuations to express an opinion on the overall accuracy of the valuation. The Council currently utilises an internal valuer but does not take advantage of a review by an external valuer. Instead, the work of the internal valuer is reviewed by the Internal Audit team.

As the next full revaluation of the Council's housing stock of over 4,500 properties that takes place every 5 years is due on 31 March 2019, an external valuer is being taken on to undertake this work for 2018/19.